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ABSTRACT

Past, present, and likely future support for the arts and education are discussed, including the debate on alternative funding sources for the arts (i.e., public spending, corporate support, private donations). To clarify current support of the arts in the United States, the development of European patronage of the arts is briefly traced. Issues concerning support of education are identified, including access to education, support for higher education and students costs, and the issue of neutrality and academic freedom when colleges and universities seek outside financial assistance. Information is included on the tax deduction for charitable contributions and investment opportunities for the following options: for-profit education businesses; child education and daycare; publishing; computers, software, and learning tools; municipal bonds; and purchasing of artwork. Included are profiles of 14 companies that have supported education and the arts as well as two alternative types of enterprises. For investors who wish to promote social values in education and the arts, the following types of investment vehicles are recommended: vocational training companies, child daycare education companies, and art and textbook publishers. A financial service company that helps students gain access to loans, is also recommended. (SW)

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insight:

Report on
Vital Industries

#6

Investing to Broaden the Human Horizon The INSIGHT Study of the Arts and Education

February, 1985

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INSIGHT's Study of the Arts and Education

I. INTRODUCTION: Investing to Broaden the Human Horizon

In this study we provide an analysis of the past, present, and likely future support for the arts and education. We show how social investors can both use their power to invest and to make contributions in order to have a greater positive impact upon the development and support of education and the arts. Specific recommendations include such investment vehicles as vocational training companies, child daycare education companies, art and textbook publishers, and a financial service company that helps students gain access to loans.

We have combined the subjects of arts and education because they are linked in many integral ways. Our conclusions for social investment in both areas are quite similar, and we believe this format will offer the most beneficial analysis.

Traditionally, the arts and education have been thought of as non-profit activities. They have received this tax-favored status because many believe that the arts and education are essential to a healthy economy and society, and that without such incentives neither the arts nor education would receive adequate support. Indeed, we believe that the arts and education expand the human horizon and offer the means for more creative communication and a better learning process. If we can contribute to the support of these activities, we are actually adding to the structural framework upon which the concept of social responsibility is based.

Currently, financial support of the arts and education is in a state of transition. Government funding is decreasing due to today's national priorities -- not the least of which is the widespread resistance to federal tax increases. In contrast, cash-rich corporations are increasing their funding. A growing number of corporations and business leaders believe that their financial support of the arts and education improves their corporate image. Some are actually even getting into the art and education "business" because they have recognized many high growth, profitable opportunities.

INSIGHT believes that the social issue hinges upon creating greater choice for educational and cultural development while diversifying and strengthening its support. In this way, freedom of inquiry for the educator and freedom of expression for the artist will be enhanced. Through the process of developing a socially-screened portfolio, investors can identify those investment vehicles in the education and art arenas that meet their personal criteria and areas of interest.

II. OVERVIEW: Current Trends

Today, the wider distribution of available information is creating a greater demand for education and artistic design. The industrial revolution, as we will see further, dramatically altered the relationship between artists and their patrons, and at the same time created a greater need for an educated workforce. Similarly, current changes in technology, and the growth of the service industry, are building a greater demand for a more creative and exciting means of selecting and designing a vast supply of information. This will require educators, artists, and professionals to work even more closely together than ever before.

The current trend is that while the absolute level of support for the arts and education is increasing (due especially to greater corporate giving) the diversification of support may narrow. In the case of the educational system, the humanities and arts are losing support, while the hard sciences are gaining. Also, the cost of higher education is continuing to climb, making it difficult for lower income families to send their children to college.

We presently see colleges seeking outside financial support from leading corporate donors. We believe that the emphasis towards greater corporate giving may lead universities and colleges to change their course curriculum to meet the interests of corporate donors, and, as a result, stifle creativity and freedom of inquiry. The extent to which corporate donations have strings attached to their gifts may actually limit the diversity of thought. A controversial professor or project might keep a corporation from giving if it goes against their own interest or business philosophy.

In addition, we also believe that the level of corporate gifts influences the ability of students to experiment with their education. In many cases, the majority of corporate scholarships are only available to students that follow a particular program (e.g. nuclear physics, chemical engineering), making the alternative choice no education at all.

The current trend in the support of the arts, also, is toward greater corporate involvement and a declining government position. President Reagan plans to cut the existing National Endowment for the Arts budget by 11.7% to \$144.5 billion. The tax changes currently being considered in Washington, D.C. may also have a significant impact upon the way in which non-profit cultural organizations receive support. The likely outcome is that corporations will continue to gain influence over the next decade.

The suggested role of the social investor is to establish values for education and the arts and begin to implement these values into one's investment decisions. Whether it is or isn't a Presidential directive, for-profit companies are actually starting to take a greater interest in servicing the demand for education and the arts either through giving donations or starting for-profit businesses with education and the arts as a primary focus. The result is that greater corporate involvement offers an opportunity for the investor to become more aware of how one's investment decisions and stockholder actions can actually influence education and the arts.

III. PROMOTING THE ARTS

A. The Arts Debate

Currently, the funding of the arts comes from federal programs such as the National Endowment for the Arts, state government art councils, public and private foundations, corporations, and individual philanthropists. The matrix of support has fluctuated over the past two decades and is always a point of controversy. Art supporters have always criticized the possibility of one funding source having too much control over the arts. The present tax changes being considered by the White House, Secretary of the Treasury, and Congress are raising questions as to which source is best suited to support the arts.

Over the past decade, the debate over the support of the arts has intensified because of changing attitudes toward public spending and a current perception that other government programs take priority. But much of the debate centers around a political view of government's role in society and the ability of the market system to accommodate every social need. The attitude and values one holds towards the free enterprise system largely shapes their perspective on this issue.

A large, vocal group of art critics have expressed concern that an ever-growing government arts budget would lead to the "socialization" of the arts, and thereby stagnate its development. Commonly, this group believes that excessive government support might create an Orwellian "Ministry of Culture" where only government officials have the power to decide which artists deserve support. Such a situation, they say, might hamper self-expression and limit access to funding.

Another group of critics has attacked indirect government support which gives individuals and corporations tax deductions for their contributions. They argue that such a policy gives the wealthy too great a say over what is worthy of support. Instead, they advocate abandoning the tax laws favoring the wealthy and the implementation of an electoral process which would help shape the manner in which the government supports the arts.

It is these two viewpoints which echo in many Washington, D.C. halls. However, the view that will likely prevail is that it is time to cut spending and increase tax revenues. Since corporations are voluntarily increasing their level of support over the last decade, many government officials and politicians believe the government can reduce its funding without harming the arts. The new tax bills currently being discussed will likely reflect the effects of this attitude.

B. Our European Past

In order to understand the current support of the arts in the United States, it is essential to understand the development of European patronage of the arts. The changes in the structure supporting the arts in Europe has largely set the tone for the United States.

Europe went through three radical periods in which support of the arts strengthened. During the early centuries of European history, churches were the main patrons of the arts. Many of the paintings preserved since this time reveal that the patrons usually decided the composition and instructed the painter in the execution. The church, as patron, might request that the artist paint Christ on the cross with angels overhead. Artists had very little freedom to be creative or to use their work as a means of self-expression.

In the second period, known as the European Renaissance, artists rose to the highest position of status in the community. The rising bourgeoisie buttressed the traditional patrons of the arts and actually gave artists room for their individual expression. Many artists joined art guilds through which their work was displayed. Such well-known artists as Leonardo DaVinci and Michelangelo started during this time period and their achievements have had a lasting effect on the development of modern art.

The industrial revolution spurred the third transition when the arts gained even greater support. The wealth created by great economic growth gave merchants and businessman the ability to become collectors of art. During this historic period, trips to the theatre and the collection of art became a symbol of success. Also, the study of the arts became a crucial learning subject for architects, printers, and other professionals.

C. Toward an American Culture

The arts in the United States started primarily as for-profit ventures. Thesbian and Shakespearian theatre companies would travel from town to town charging an admission fee for their expenses. Similarly, painters would visit towns with brush in hand to paint farm homes, local scenic spots, and then hopefully sell their works to residents. Those who saw themselves as being in the arts made very little money, but some did manage to make a living at it.

There were few changes until the Great Depression. At the turn of the century a few wealthy businessmen began spending more on art for personal collections as well as making charitable contributions. However, the 1930s WPA program was the first genuine governmental effort that supported the arts. This WPA program funded over 40,000 people involved in the arts, including dancers, painters, actors, and sculptors, and thus represented the first structural change in the support of the arts. In many ways, government leaders saw this program as a way of lifting spirits -- obviously needed during such an economically despairing time!

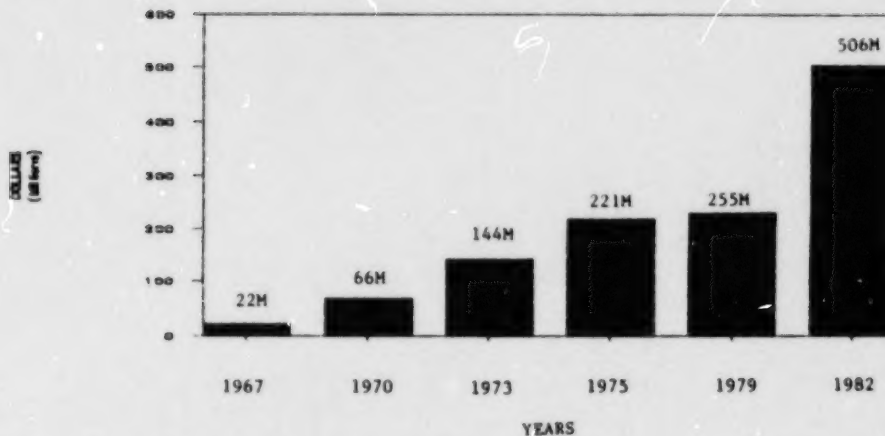
Government art support continued to rise after World War II. With the economy more stable and prosperous, many people had more leisure time. Fearing that this free time might create another peril to economic and social life, many government and business leaders believed that by further supporting the arts they could channel energies more positively. In addition, some people were also concerned that the U.S. might fall behind Europe and the Soviet Union in their "creative" development. In other words, they feared the possibility of a "culture gap". Government support of the arts seemed like a natural course!

During the 1950s, '60s, and early '70s, the funding for the arts flourished. By the mid-1960s the majority of elements that support the arts today were in place. Such large foundations as the Ford Foundation and the Rockefeller Fund began appropriations of staggering proportions. President Lyndon Johnson had signed the National Endowment for the Arts into existence. The prevailing view was that all seemed to be in place to transform the American support of the arts into a permanent institution and a way of life.

D. Pleasant and Unpleasant Trends

Today the trend is toward support shifting from public sources to corporate ones. The abnormal growth of the Federal deficit is placing pressure on the White House and Congress to reexamine their budget priorities. Cuts in social security, interest on the debt, and military spending (which comprise well over half the total federal budget) confront great opposition because of deep vested interest in maintaining these programs, making significant cuts unlikely. Cultural organizations and artists, on the other hand, have few means to influence the nation's budget priorities. Their only other means for survival is to turn to the private sector.

LEVEL OF CORPORATE GIVING TO THE ARTS



Source: Data compiled from information made available by the Business Committee for the Arts, New York, NY

President Reagan has stated several times that corporations and individuals need to take greater responsibility for the cultural life of Americans. And indeed, many corporations have responded to the President's requests. Reagan has also used his power to redirect the National Endowment for the Arts, for example, to become more active in promoting private sector support. Today, according to the Business Committee for the Arts, corporations are giving over \$500 million a year, compared to \$22 million in 1967.

Corporations receive the same tax benefits for giving to the arts that individuals do. For corporations, they can gain a fairly significant monetary advantage by forming tax-exempt foundations in order to support the arts. Also, sometimes individual large shareholders will use the corporation as a means of giving and taking the tax advantages. These incentives, of course, have prompted corporations to play a greater role.

Greater corporate support is also being generated because smaller companies are realizing that they gain positive public recognition through donating to local cultural activities. In 1979 there were over 600 corporations which had developed foundations to support the arts. For the first time their donations actually surpassed the contributions of the existing non-profit foundations. The issue for many companies is they they can also improve their corporate image much in the same way as Mobil and Exxon have by supporting local art and cultural events.

In contrast, greater corporate involvement is occurring while Government spending is being cut. The National Endowment for the Arts' authorization budget, for example, has remained constant at approximately \$120 million since fiscal year 1982. Currently, corporate spending relative to federal government spending is greater than four to one. If corporate giving grows at its present rate, it will double this figure by 1990. The social issue is that corporations have become and will remain the leading funding source for the arts.



Langley in The Christian Science Monitor © 1984 TCSPS

IV. INVESTING IN EDUCATION

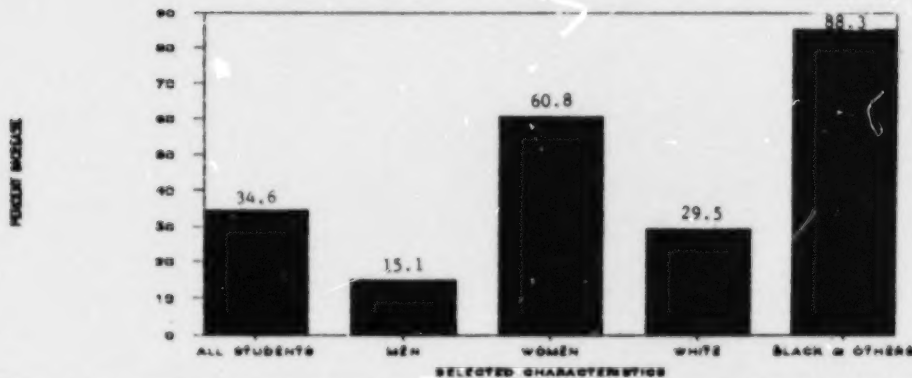
A. The Role of Education

For the most part, the United States inherited the education system of Europe. The old Ivy League schools, such as Harvard, Yale, and the University of Pennsylvania, were all set up during the early years of our nation's history. Both the architecture and class curriculum of these schools reflected America's European roots. Today, these schools still represent the pinnacle of the U.S. educational establishment.

Fortunately, our American heritage has also included the establishment of public schools where all members of the community could send their children. The small, rural schoolhouse represented the first effort in our history to provide an equal education for all children. Since the writing of the Constitution, the creation of public schools and public libraries was seen as a way of giving everyone equal access to the fruits of knowledge. Moreover, over the past 50 years many social reformers have renewed their interest in schooling and have chosen it as the best instrument for creating economic equality. They have believed that equal access to schooling will serve as a very powerful vehicle for equalizing economic opportunity. This effort has generated a very large publicly funded secondary educational establishment and large state sponsored university setting.

PERCENTAGE INCREASES IN THE ENROLLMENT OF COLLEGE STUDENTS WITH

SELECTED CHARACTERISTICS: United States, Fall 1972 - Fall 1982



Source: Data compiled from information made available by The National Center for Education Statistics.

There is reason to believe that the efforts of using schools to create social reform have been partially successful. The graph above illustrates the growth of enrollment in universities and other academic programs by blacks, women and other minorities. But it also reveals that the educational establishment still has a long way to go before every individual has an equal chance to succeed!

B. The price of an education

The American education system is the largest in the world. By the fall of 1982, nearly one out of every four people in the United States was involved in the education establishment, either as a teacher, an administrator, or as a student. Statistical evidence made available by the the National Center for Education Statistics shows that there are approximately 57 million students enrolled in our schools and colleges, 3-plus million teachers and more than 300,000 administrators.

Today, nearly every major city in the United States has at least one private or publicly funded university, and every state has at least one state supported university. In addition, the entire country is full of private, non-profit colleges. Presently, in fact, the secondary school establishment is very much oriented toward preparing their students to enter either the state-run universities or to gearing them for prestigious, private colleges.

The primary distinction between private and public sponsored schools is cost; usually the higher the college's prestige, the higher the tuition cost. A recent study showed that the cost of sending a student to an Ivy League college costs about \$60,000. For example, the tuition at the Massachusetts Institute of Technology (MIT) is over \$10,000 per year. This sum of money immediately prohibits students whose families earn less than the national average income (approximately \$25,000) from applying -- that is, unless they can get their hands on financial aid!

State-run universities are funded in part by tuition, but the majority of support is through taxpayer assistance. The quality of many of the public schools surpasses that of privately-run colleges. But, today we see increasing pressure against these schools. More and more, taxpayers are lobbying against tax increases, and the support of the universities is one area that taxpayers can easily attack. Therefore, the problem is convincing irate taxpayers to continue to assume the burden of running these schools, an argument that depends upon the ability of the taxpayer to understand the long-range social costs and benefits.

C. The Issue of Neutrality and Academic Freedom

In order to reduce costs, colleges and universities seek outside financial assistance. Their special status as non-profit entities allows them to seek contributions and grants from individuals, government agencies, and corporations. While this aids the economic viability of the educational institution, it raises a clear social issue.

The South African divestiture movement, and the subsequent nuclear divestiture movement, have asked colleges to divest certain holdings in their endowments, (e.g. companies that operate in racist South Africa or nuclear weapons contractors). Frequently the schools' initial response has repeatedly been that universities should be neutral and that divestiture would compromise the freedom of study at the university. But in many cases, the students have countered the Board of Directors' position by showing that the schools are not entirely neutral on such issues. They reveal that universities and colleges are not only connected through the investments of their endowments, but they also receive substantial support from large corporate donors, which has occasionally affected school curriculum and policy.

For many universities and colleges, selling their programs to corporations and other philanthropic agencies and individuals is key to economic viability. But the desire to create greater corporate interest can change a school's policies and practices. Particular projects or individual professors, for example, may not be accepted by the school administration because they would be in conflict with a project or professor supported by a corporate grant. This policy limits student's access to professors and programs which challenge traditional views and ideologies.

Evidence that corporations use their donations to exploit the resources of the university is naturally elusive since the gifts are ostensibly given to improve the facilities of the university. But occasionally stories do emerge. In the January 20th issue of the New York Times, a feature article on IBM revealed that many of the universities receiving contributions from IBM agreed to keep their work confidential. The implication is that the research conducted at the university is being used by IBM for development.

In 1983, corporations gave a record \$1.29 billion to education. The Council for Financial Aid to Education, an independent organization that tracks such giving, reports that this figure represented a 3.2% increase in giving, although pre-tax net corporate income was at its second lowest level since 1978. Both the vast size and growth of this source of funding relative to education costs demonstrates the importance of such funding to the economic viability of many colleges.

The social issue, though, is not whether schools should have the support of the business community, but instead it is whether corporations will use their donations to influence school programs. In many cases, simply the desire by fundraisers to sell the school to corporations will alter the direction of the school. Other harm occurs when corporate giving hampers the student's ability to experiment with his or her education. If, for example, corporate giving is aimed at helping a greater number of students gain access to an educational opportunity, then they are being socially responsible. But if they give to set up a research and development program for their own operations, they are exploiting the school, the students, and its community.

D. Future Trends

The tight relationship between industry and the educational establishment will likely become stronger over the next decade. The trend toward greater corporate philanthropy will continue to climb as business managers continue to measure their responsibility for supporting education. But corporations will also become more involved in starting for-profit education businesses. These trends will likely give corporations greater control over the direction of education, but will also likely lead to greater opportunity for students seeking alternative education to high school and college as well as economic growth.

A greater recognition that most advances in high technologies come from major universities, as well as the best trained engineers and professionals will drive corporations to aid universities. In many ways, it seems that corporations are increasingly realizing that whoever holds a piece of a university has an edge in the marketplace. Through corporate giving, they seek greater control over universities and other educational institutions in order to access the best minds and technology for their own corporate goals. Large corporations whose businesses depend upon the competitive advantages of new technology will seek new innovations and technologies to remain viable.

Corporations and entrepreneurs will seek opening markets in the field of education to start for-profit education businesses. Over the past decade we have witnessed a significant rise in the number of highly successful for-profit daycare centers. Vocation training companies have also resurfaced as exceptionally profitable opportunities. And over the coming decade we will likely witness more for-profit companies breaking into other growth areas such as high school, college, and adult education.

What we are finding today is that education and access to information is key to financial success. Industries will pay more for education because of its direct correlation to economic growth. The transition from an industrial based economy to an economy where information, services, and education are more highly revered is opening up new opportunities. Hopefully, greater access to information will be the key to a highly pluralistic economy and society.

During the industrial revolution, for example, the economy's most important strategic resource was capital, and access to capital was indeed very limited. Today, access to information is becoming the most important strategic resource. The ability of entrepreneurs to start projects today is less dependent upon their personal access to capital than their ability to read the market and to find innovative ways to sell their goods and services. Increasingly, education and access to information are key to making such an enterprise work.

Innovations coming out of universities have created hundreds of thousands, if not millions, of new job opportunities in our capitalist economy. The old and the new industries will compete in the university, but the pursuit of knowledge will continue to be fair game for a growing number of people. Hopefully, greater corporate support will lead to greater access to information and learning. This possible trend will require a higher awareness on the part of corporate donors to see the value of a well-rounded and open educational system. They may see this as the best possible way to support the common good as well as their own personal interests.

SUMMARY

In this study we have argued that the likely future trend for the support of the arts and education is transferring from public support to greater corporate support. The current forces driving this transition are the realization by corporations and other business entities that the arts and education are integral to the health of the economy, as well as the generous tax incentives that help corporations use their economic power to support the arts. Therefore, we see the diversity of the support of the arts decreasing relative to government and other sources.

Greater corporate support will leave a lot of the decisions to a very select few decision-makers who already have a tremendous amount of control over the direction of the economy. Any additional control will limit the ability of the arts and education to cut out a new direction, different from that which corporations would choose themselves. We will therefore see art as a means of social expression lose part of its potential as an objective critic of American society.

However, the value of education and the arts is being realized. Corporations are indeed paying for its support, and within the private sector the diversity of support is increasing. This heightened perception gives those who devote their time and effort to these endeavours leverage,

whether aesthetic, social, or political. The importance of an educated workforce and the essential need for well-designed and artistically crafted products and services will require professionals to work more closely with both educators and artists. Hopefully, this tighter relationship will broaden and expand the way in which we all see the world.

The key social issue, again, is whether greater corporate involvement will adequately provide the diversity required to fund a well-rounded and healthy atmosphere for education and the arts to grow. The answer, of course, depends upon how corporations use the economic resources and influence implicit in their support. Investors may also have to do their part in helping corporations define the way in which they support both education and the arts either through stockholder action or through developing an investment strategy screening for corporate support of the arts and education.

This social profile can conclude that greater corporate involvement opens up opportunities for social investors to use their investments in ways that support the arts and education. Because of greater involvement, investors can analyze the way in which companies contribute to the arts and education, and then decide upon whether or not it meets their social criteria.

V. INVESTMENT OPPORTUNITIES

A. For-Profit Education Businesses

Over the past decade many of the privately-run vocational schools have refocused their efforts from automotive repair and airline steward training to retraining workers who either are seeking career advancement or have been structurally unemployed. Due to the emergence of computers and other high technology innovations in the workplace, many displaced workers have found it necessary but difficult to gain access to educational training. Semi-vocational, professional schools have become a major part of training those interested in getting higher-paying jobs in the high technology field.

Such companies as National Education Corp., Wilfred Academy, and United Education and Software, have taken the lead in developing this field. These companies are using the most up-to-date technology to provide an affordable educational program. Home computers, for example, enable working people to take classes and even exams through a telephone modem and their home computer. In this way, the use of computers allows them to spread their costs over an expanding volume of participating students.

Box #1

GIVING TO THE ARTS AND EDUCATION

One way to make use of an investment portfolio in order to promote education and the arts is to give contributions to charitable organizations and to deduct the gift from federal income taxes. The purpose behind the tax deduction, of course, is to encourage individuals to contribute to their favorite charities and to support those organizations which would otherwise have a difficult time surviving financially. The benefits of making donations to the arts and education can indeed be substantial. Individuals may deduct up to 50% of the amount of a contribution off their adjusted gross income.

There are some important things you need to keep in mind when making a donation. In order to deduct contributions from your income taxes, such gifts must be either cash or property to a qualified organization registered with the Internal Revenue Service for its non-profit status. The IRS by-laws dictate that the recipient organization must be "organized or operated only for charitable, religious, educational or scientific purposes." Essentially, the intent of the bylaws is to make a distinction between for-profit and non-profit activities.

Also, we warn those giving donations to be sure to deduct the value of the gift according to its market value. For example, if you are donating a painting to your local museum, make sure then that it is a fair deduction. Over the past couple of years there has been mounting pressure against the tax deduction law. Too many art donors have abused the tax deduction as an unfair tax shelter. In many cases, art donors have overestimated their gifts by as much as 900%.

The possibility of a flat tax or any readjustments in the overall tax structure may also affect the ability of an investor to give to the arts. The tax plan as proposed by the Secretary of the Treasury would require donors to give at least 2% of their income in order to qualify for tax deduction. The higher level may make it more difficult to actually give. Currently, the average donor gives about 1.7% of his or her income.

Certainly, we advise anyone considering giving to charitable organizations to keep good records of any donations. A professional accountant could also come in very handy around tax time.

In addition, these companies cater to the needs of many working people and to those in search of better employment. The boom in information, services and higher-paying jobs in the computer field have prompted prospective students to take a good look at their services. Value-Line, in fact, has called National Education Corp. a "paycheck education." The value these companies have for students who are looking for real alternatives suggests that the growth prospects will continue to be strong over the coming decade.

B. Child Education and Daycare

The child care industry is embroiled in a hotbed of controversial publicity. Many leading news stories have warned parents about sexual abuse, brutality, and disease at many of the 30,000 daycare centers across the country. To many, the idea of investing in such childcare companies as Kinder-Care, La Petite Academy, and Gerber might be appalling. But the concept behind daycare is strong and deserves a fair trial. Any investor, as well as any parent, should seek out those childcare centers emphasizing high quality service.

Many doctors and health researchers are expressing concern that large, licensed daycare centers spread disease more easily among children attending the centers. Secondly, social researchers and parents criticize daycare centers because they cannot give the children the personal attention they deserve. In support, they point out that the widespread discovery that there is sexual abuse at many centers across the country confirms the fact that there is not enough supervision.

But having heard the criticism, we believe that the idea behind daycare is still worthwhile. The criticism that childcare centers increase the transference of colds, flues, and other common childhood ailments may in fact be true. But there is also evidence that placing children in these centers and exposing them to other infectious illnesses may make them less susceptible by building up immunities. Similarly, most of the child-abuse reports have been coming from those daycare centers operating in private homes. Large, for-profit daycare centers typically realize that their "image" is very dependent upon the quality of their operations.

The child care industry has emerged as a high growth business because of the rapidly growing percentage of two income families, and single parent households. The obvious social outcome of this development is that more women have been able to enter the workforce and to continue with careers while still helping to raise a family. The Department of Labor, in fact, has reported that since 1947, the number of women in the work force has increased from 19% to 66%. Furthermore, daycare centers have also decreased reliance on government assistance by single parents.

Child care centers have also helped the businesses that provide them for workers economically. The Department of Health and Human Services conducted a study interviewing 415 companies with childcare services which showed that these programs helped office productivity. The report found that 65% of the companies had a decline in turnover, 53% had a decline in absenteeism, and 85% believed that it helped recruitment. In this respect, daycare has clearly met not only a social goal, but an economic one as well!

Gerber, La Petite and Kindercare are the leading publicly traded companies in the industry. Other ways to support daycare would be to find companies that provide on-site daycare services. Stride-Rite, for example, is a leading company that assists other companies in setting up their own daycare services. We see the importance, though, of selecting only high quality daycare services. Any emphasis on education at daycare center is likely to be a major determining factor in measuring their performance and management status.

C. Publishing

The publishing industry is perhaps the most timely field for investment among the avenues suggested in this report. Publishing companies that focus upon education and the printing of art have performed exceptionally well over the last couple of years and will likely experience continued earnings growth. Any increase in the demand for education and for access to more affordable art collections will stimulate book sales and thereby translate into greater profitability.

The National Center for Education Statistics forecasts increased enrollments for both elementary and secondary schools over the coming years. By 1990, they predict enrollment to increase by 3.5 million to a total of 46.5 million. This trend, a turnaround after several years of declining figures, should reinforce the existing demand for educational textbooks and other school-related materials.

The big push in publishing, though, is the electronic publishing field. The ability of a computer to quickly edit and refine material, combined with the increased speed of electronic printers, is reducing the cost of the publishing process. The personal computer also makes it possible for smaller companies to get involved in the publishing business. In fact, INSIGHT is really a product of the computer revolution and the ability to quickly and cost-effectively provide vital information!!!

D. Computers, Software and Learning Tools

The benefit of personal computers as learning tools is that they turn learning into play. Their illustrative graphics have a Pac Man approach, while still teaching the user valuable skills. A young computer user, for example, may be asked to find their way through mazes on the screen, thereby teaching the child to take notes, develop strategies, and organize thoughts. The computer really becomes a creative tool for teaching reasoning and problem solving, while still feeling unthreatened as if it is play.

Many computer manufacturers and software producers have performed exceptionally well financially. Today, there are over \$10,000 worth of educational software programs on the market. And this number is likely to rise significantly over the coming years. Over the past three years there has been a dramatic growth of personal computers used in the class room, which has opened up an expanding software market. In addition, student demand for more complicated programs will also likely continue to stay ahead of any software producers' ability to create them.

E. Municipal Bonds

Municipal bonds have provided an excellent way for high income earning investors to support schools, museums, and other cultural development programs while receiving a competitive rate of return. It is possible that any tax simplification measure could negatively affect municipal bonds. But we believe that there is considerable resistance to any alteration of their status and that therefore municipal bonds will continue to offer a profitable investment vehicle for many individuals.

In principle, the tax-favored advantages of municipal bonds make it possible for public projects to access low interest-bearing loans. The bonds are tax-deductible from both Federal and state taxes. If you are in the 35% tax bracket or above, for example, a tax-exempt bond can still give a rate of return far in excess of Treasury bills after taxes. They act like other fixed income securities and provide an excellent means of balancing a portfolio between stocks and bonds.

We do advise, however, that anyone considering a municipal bond carefully examine their special features. Using a professional investment advisory or management service would be prudent.

F. Art as an Investment

There is probably no better way to support the arts than to buy a painting, a sculpture, or any other piece of art. The artist benefits directly by virtue of the sale and income, and the buyer by having something to add beauty to his or her home. The buyer may also benefit because the piece of art will likely hold or, may even rise in economic value. Many art collectors, in fact, buy painting and art work not only because they enjoy the pleasure of modeling the work, but because there is indeed a marketplace for art.

They buy paintings much in the same way they would stock in a company. If, for example, a buyer wishes to purchase a painting to secure capital, they usually would buy a "name" painting such as a Van Gogh. Similarly, if a collector wanted to invest in a painting that will likely increase in value, purchasing a painting from an up-and-coming artist might be very profitable. As the artist gains greater notoriety, the painting will become more collectable.

This kind of investing does have its risks, however. By and large the careful art collector has done fairly well in the marketplace. But the depth of the market is a very serious consideration. There is a big difference between the marketplace for common stock and the marketplace for paintings. We would therefore advise that investors interested in buying art do so first because it meets your personal tastes, and secondly because it would serve as an investment. It is likely that you would be both a better art collector and investor by taking this approach!

G. Companies Contributing to the Arts and Education

This is perhaps the best method of actually "investing" in the arts and education. Our study of investing in the arts and education has led us to this conclusion because of the increasing influence corporations will have over the development of the arts. Therefore, to find the amount and kind of cultural projects a company gives is to gain insight into the corporate image and aesthetic view of the corporation. If a company gives to the kinds of cultural events and organizations that fit your tastes, you may have found a company which is worthy of your financial support.

We must admit that our initial response to this idea was not enthusiastic. Typically such giant companies as Exxon, AT&T, and Mobil come to mind when we think of firms who give to the arts. They are, after all, the big sponsors of our favorite public television and radio shows. But having reviewed the vast increase in corporate giving to the arts and the relative decline in Federal support, we feel that this avenue is indeed the most exciting.

There are companies such as Dayton Hudson that have an almost legendary reputation in their support of cultural and social programs within their communities. As a matter of policy, Dayton Hudson allocates 5% of its pretax profits to charitable contributions every year. Apple Computer, another example, has also been a leader in giving to local, grass roots groups that would normally not receive corporate grants. These companies demonstrate that there is more involved in socially responsive investing than just placing money in profitable businesses that cause no social injury.

The following is a partial list of companies that fall into the criteria delineated in this report. However, these companies should not necessarily be considered as investment recommendations by Franklin Research and Development. Investments should be made in conjunction with a thorough analysis of overall investment goals and with an eye toward the suitability of individual vehicles.

COMPANY PROFILES

APPLE COMPUTER (AAPL-OTC)

Apple is a leading manufacturer of innovative personal computers. Currently Apple controls the majority of the education market and is gearing up to penetrate the business segment this year. The Apple Education Foundation has given thousands of computers to public schools, and has done so to secure its place in this important market. Apple has also donated hundreds of computers to small, grassroots cultural groups across the country. In this respect, it has clearly been a leader in cultural philanthropy. See the September 1984 Equity Brief for more information.

CONTROL DATA (CDA-NYSE)

Control Data's operations include computer related services which encompass science and engineering applications, business data processing, and information and education oriented businesses. We include Control Data because it is extensively involved in using its resources to provide educational programs for handicapped people through its "Homework" program and for less privileged students through its "Fairbreak" program. For more information, see the September 1984 Equity Brief.

DAYTON HUDSON (DH-NYSE)

Dayton Hudson is one of the fastest-growing major retailers in the United States. Dayton-Hudson's specialty-store oriented department chain includes Target, Mervyn's, Diamond's, and Lechmere. The reason this company is included in this report is that it has given 5% of its federal taxable income to charity for 36 consecutive years. In this respect, Dayton-Hudson has been an outspoken advocate for encouraging other corporations to match their 5% level.

GERBER PRODUCT COMPANY (GEB-NYSE)

Gerber Product Company supplies approximately 70% of the domestic baby food market, markets children's apparel, and is developing a substantial business in the childcare industry. Currently Gerber is operating 86 daycare centers nationwide and plans to increase its number of operations to 250 by 1987. Each daycare center generates approximately \$250,000 in revenue. Many of Gerber's daycare centers are well-known for integrating daycare services with high quality educational instruction.

HOUGHTON MIFFLIN (HTN-NYSE)

Houghton Mifflin is one of the largest school book publishers in the country. The quality of its books is nearly unmatched by any of its competitors. The company has performed exceptionally well over the last four years. Increased earnings and dividends have pushed the stock price up significantly ahead of the market average. However, its labor practices do

raise some questions as to its social value. We suggest that you look at the November 1984 Equity Brief for more information.

JOSTENS INC. (JOS-NYSE)

Jostens manufacturers recognition awards for businesses, athletic, and educational uses. The company has recently diversified into vocational schools and business products. Value-Line reports that the company's recent earnings growth is tied to "the steady enrollment gains at its business schools."

KINDER-CARE (KNDR-NYSE)

Kinder-Care is the largest publicly held childcare chain in the industry. Kinder-Care operates close to 800 daycare centers in thirty-seven states and two Canadian provinces. While many in the industry disagree with the heavy weighting Kinder-Care gives towards growth and acquisition of other childcare centers, most agree that Kinder-care has succeeded at providing a good quality service. Kinder-Care has had its share of criticism, but it is a fast-growing company that has seen the market for childcare and has grown to meet the demand.

LOTUS DEVEL. (LOTS-OTC)

Lotus Development Corporation markets spreadsheet software programs for IBM PC's. In two years the company has achieved the status of the leading independent supplier of PC software for the office market. Lotus has recently approved a large corporate grant program which we expect will reflect the company's progressive and far-sighted vision.

MCGRAW-HILL (MHP-NYSE)

McGraw-Hill, once strictly a book publisher, now provides many information products and services to business, government, the general public, and to educational services and programs. These include broadcasting, news services, magazines, and textbooks. In addition, McGraw Hill is also a big supporter of education and other cultural organizations. McGraw-Hill offers a matching gift program that matches employees' contribution to non-profit organizations 2 for 1.

NATIONAL EDUCATION CORP. (NEC-NYSE)

National Education is the largest public vocational education company in the country and provides a highly diversified training program. National Education offers vocation-industrial training, educational publishing, and home health care services. E.F. Hutton Analyst Mary Lisanti has said that "National Education is really becoming a software company" after trying to explain why its price/earnings ratio has increased so significantly over the last couple of years.

STRIDE-RITE (SRR-NYSE)

Stride-Rite is a leading manufacturer of high quality children's shoes. Stride-Rite has long been known for its innovative efforts in providing daycare facilities at its two main centers in Roxbury and Cambridge, Mass. for both its employees and other community children. The company has also promoted the idea of on-site corporate daycare and has assisted such companies as Wang Laboratories in developing their own services.

STUDENT LOAN MARKETING ASSOC. (SLM-NYSE)

Student Loan Marketing Association (Sallie Mae) is a federally-charted, stockholder owned corporation which provides loan financing for students seeking post-secondary education credit. Sallie Mae assists students seeking loans by purchasing student loans from eligible lenders such as a state or federally chartered bank. These loans are usually guaranteed through the federally sponsored Graduate Student Loan Program. The company has performed exceptionally well over the last several years, but current changes in budget priorities has raised some uncertainty about its growth prospects. The Reagan administration intends to limit the loans to students with families earning under \$30,000. But the Reagan administration also plans to increase the amount students can borrow. We would suggest a wait and see strategy until the dust settles.

UNITED EDUCATION AND SOFTWARE (UESS-OTC)

United Education and Software develops and markets software packages for the education market. Over 75% of its revenues derive from the vocational and post secondary education market. Currently, UESS operates 10 accredited schools with 11 campuses in California. The schools offer courses in such disciplines as business, legal services, computer technology, and health care. About 80% of the students receive some form of government aid.

WILFRED AMERICAN (WAE-NYSE)

Wilfred American operates the largest proprietary career school system in the country. The company offers primarily two programs in the field of hairdressing (cosmetology) and secretarial, wordprocessing, clerical, and computerized bookkeeping skills through its American Business Institutes. The company made its initial public offering in October, 1984.

ALTERNATIVE INVESTMENTS

ALIA

Alia is a new business with offices in Brattleboro, Vermont and Cambridge, Massachusetts which is designed to open up a U.S. market for handcrafts made by artisans in the state of Guerrero, Mexico. Alia is unique in its marketing approach because its efforts are to create a more

equitable relation between the artisans and buyers. The handcrafts include finely designed and styled jewelry made by members of the Tecal Art Cooperative.

EDUCATION CLINICS INCORPORATED

Education Clinics Incorporated, based in Seattle, Washington, is an exceptionally unique company that is working to help high school dropouts get back on track. Though the company is for-profit and derives its revenues from private and state funds, it has had considerable success in its efforts. ECI's special courses offer instruction in the basic academic skills along with counseling to motivate its students and help them solve their personal problems. A very exciting program which will likely be recreated in other parts of the country.

SOURCES FOLLOWING ARTS AND EDUCATION

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This Insight special report was completed in January, 1985 by Thomas H. Stoner, Jr., and under the supervision of Joan Bavaria. Sources utilized include government documents, Wall Street research, the business press, trade journals, and social research organizations. All sources are believed to be reliable but cannot be guaranteed.

ARTS AND EDUCATION

Symbol	Stock Name	Social Screen Rating								Earnings Per Share			Dividends per Share	Price/Earnings Ratio		Risk/Reward
		AF	LA	MK	EN	NE	DE	AE	AG	1983	'84E	'85E		'84E	'85E	
AAPL	Apple Computer	2	1	2	2	2	2	3	2	1.28	1.00	2.40	0.00	29.25	12.2	UV at \$29.25
CDA	Control Data	3	3	1	3	3	2	3	3	4.20	4.00	4.60	0.65	9.0	7.8	FV at \$36.00
DH	Dayton-Hudson	2	2	2	2	3	2	2	2	2.52	2.80	3.30	0.65	12.8	10.9	FV at \$36.00
GEB	Gerber Product Company	2	2	1	3	3	2	2	2	2.48	2.80	3.00	1.28	9.2	8.6	UV at \$25.75
HTN	Houghton Mifflin	2	4	1	3	3	2	2	3	2.16	2.43	2.80	0.90	15.00	12.81	FV at \$35.88
JOS	Jostens	2	3	2	3	2	2	3	2	1.50	1.67	1.85	0.80	13.5	12.2	FV at \$22.50
KNDR	Kinder-Care	2	4	2	3	2	2	2	2	0.50	0.69	0.90	0.09	23.5	18.1	FV at \$16.25
LOTS	Lotus Develop	2	2	1	2	2	2	3	2	1.02	2.15	2.87	0.00	13.26	10.0	UV at \$28.50
MHP	McGraw-Hill	3	3	2	3	3	2	2	3	2.52	2.86	3.35	1.24	15.2	13.0	FV at \$43.50
NEC	Nat. Education	5	2	1	3	2	2	2	3	.88	1.10	1.40	0.00	13.07	10.27	FV at \$14.38
SRR	Stride-Rite	2	2	2	2	2	2	2	2	2.35	1.35	1.70	0.88	12.78	10.15	FV at \$17.25
SLM	Student Loan Mkt. Assoc.	2	3	1	3	3	2	2	2	1.37	1.85	2.30	0.15	16.22	13.04	FV at \$30.00
UESS	United Educ. & Soft.	2	3	2	3	3	2	2	2	0.80	0.40	0.85	0.00	5.6	2.6	FV at \$2.25
WAE	Wilfred American	2	2	2	3	2	2	3	2	.85	.95	1.15	0.00	13.95	11.5	FV at \$13.25

The risk-reward column is a judgment of the value of the stock at the price quoted, relative to the return required by the stock market for all stocks of a similar risk class. The judgment is based on projected earnings one year out. This is not a necessary indication of future performance but may be an aid to informed security selection.

UV means that the stock is likely to outperform other stocks of its risk class.

FV means that the stock is likely to perform at or near the median of other stocks of its class.

OV means overvalued.

Stocks recommended for purchase in this advisory letter are to be considered long-term investment commitments. Because we are not in touch with investors on a daily basis, turns in the fortunes of the companies, short term, will be impossible for us to report. However, we will certainly follow through within the time constraints of our publishing schedule. We advise subscribers to seek timely advice from qualified investment professionals.

Social Screen Key: AF = South Africa. LA = Labor. MK = Marketing. EN = Environment. NE = Nuclear Energy. DE = Defense. AE = Alternate Energy. AG = Aggregate Ranking. 1, 2 = above average; 3 = average; 4, 5 = below average, needs improvement; - = no information.